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# Wage subsidies and job retention

Enda Keenan & Reamonn Lydon  
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# Wage subsidies and job retention

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Wage subsidies have supported job retention during the COVID-19 shock. Initial phased re-openings saw workers in consumer-facing sectors such as *Accommodation and Food Services* and *Retail* increasingly move onto the scheme. The subsidy level has changed over time, falling initially in the changeover from the TWSS to the EWSS, before rising with the re-introduction of restrictions more recently. In the short-run, the main source of uncertainty for firms and workers is the path of the virus. In this context, maintaining a flexible approach that prioritises income and liquidity supports is the right thing to do. In the longer-run, however, it is important for taxpayers, business owners and employees that firms can ultimately stand on their own, without State supports. The EWSS, along with potential considerations for future formats, can help with the transition. Allowing wage-subsidy supported workers who face a material risk of job loss in the future to engage with Active Labour Market Programs, including retraining and help with job search could also be beneficial.

Short-time work and wage subsidy schemes have been used in many countries to support job retention in the face of adverse economic shocks. By subsidising incomes and firm liquidity, these schemes support aggregate demand, help companies to retain workers, and avoid the potentially costly process of separation and re-hiring. For workers, these schemes can help avoid scarring effects associated with extended periods of unemployment. Workers supported by these schemes, even those on very few or zero hours, are not counted in official unemployment statistics.

The Temporary Wage Subsidy Scheme (TWSS) in Ireland ran from March to September 2020. Eligible firms were required to experience at least a 25 per cent decline in turnover as a result of COVID-19. Wages were subsidised up to €410 per week, or 70-85 per cent of average net weekly pay. Employers could ‘top-up’ the difference between the subsidy and employees’ pre-COVID net earnings.

The Employment Wage Subsidy Scheme (EWSS) replaced the TWSS on 1 September. To be eligible for the EWSS, firms have to experience a fall in turnover of 30 per cent or more as a result of COVID-19. The subsidy level in the EWSS was (initially) lower, at two flat rates of €151.50 and €203 respectively.

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The maximum earnings limit for eligibility increased from €960 to €1,462 per week.

As we discuss below, one of the attractions of the wage subsidy scheme during the COVID-19 is its flexibility: that is, the ability to adjust the scheme to reflect regional, sectoral, or even national changes over time. Rising virus numbers in recent weeks has prompted such a change. On October 19<sup>th</sup> the government announced a return to the tightest level of restrictions ('Level 5'). At the same time, the subsidy amount was increased across [five bands](#) as follows:

- Gross weekly earnings of 0 - €151 = €0 subsidy
- >€151 < €203 = €203 subsidy
- >€203 < €300 = €250 subsidy
- >€300 < €400 = €300 subsidy
- >€400 < €1,462 = €350 subsidy

These changes, which are in place until end-January 2021, align the EWSS to a new structure of Pandemic Unemployment Payments, which were announced at the same time. Changing subsidy amounts impacts a wide range of firms' and workers' incentives, as discussed in the second part of this *Letter*.

The take-up of schemes across Europe range from 20 to 30 per cent of employees, broadly similar to the Irish experience.<sup>1</sup> Before the most recent re-introduction of restrictions, the cost of the schemes (TWSS plus EWSS) was expected to be €4.5 billion.<sup>2</sup> The Pandemic Unemployment Payment was expected to cost at least another €3 billion, also prior to the most recent re-introduction of restrictions. For comparison, expenditure on unemployment social protection measures last peaked at €5.1 billion in 2012 (Eurostat).

Recent Central Bank of Ireland research has highlighted the significant role of wage supports for firms' cash flows in recent months.<sup>3</sup> The focus of this *Economic Letter* is labour market effects, for both firms and workers. It begins with an overview of who has benefitted from wage subsidy supports, and how this has changed over time. Wage subsidy statistics tend to be released at a lag. Therefore, whilst the analysis in this *Letter* pre-dates the most recent restrictions, it provides some insights into how numbers might evolve over next few months. We discuss how the changes to supports, including subsidy levels, might impact firms and workers. Finally, and in light of recent [announcements](#) on short-time or wage

<sup>1</sup> See [OECD, August 2020](#) for an overview of the differences between short-time work and wage subsidy schemes. Wage subsidy schemes, like in the case of Ireland, subsidise both hours worked and *not* worked (i.e. more like typical short-time work schemes, such as the German *Kurzarbeit*). Subsidies tend to be more common in countries with limited experience of formal short-time work schemes, and relatively lower layoff costs.

<sup>2</sup> The cumulative value of payments made under the TWSS to mid-August was €2.6 billion. The [July Stimulus](#) estimated the cost of running the EWSS through to end-March 2021 at €1.9 billion. EU funding may be used to fund some of the costs of the wage subsidies schemes, as [recently indicated by government](#).

<sup>3</sup> See [Lambert et al \(2020\)](#).

subsidy schemes forming part of the permanent policy landscape in the longer-term, we discuss some potential design issues.

## Scheme take-up

The TWSS supported a cumulative 663,600 people since its inception accounting for, 28 per cent of employment (in Q1 2020).<sup>4</sup> At its peak (end-April), the TWSS supported 425,000 workers, with approximately 340,000 still in receipt of subsidy payments at the closing of the scheme in September. Seventy per cent of supported workers had been availing of the scheme prior to 1 May. On average 58 per cent of recipients were male, 77 per cent were Irish nationals and 39 per cent were aged under 34 years. Compared to the Pandemic Unemployment Payment (PUP) scheme, TWSS recipients tended to be older. This suggests a greater likelihood of permanent job loss for younger workers, depending on the sector of employment.<sup>5</sup>

At end-August, three sectors – *Accommodation and Food Services* (24 per cent), *Wholesale and Retail Trade and Repairs* (19), and *Industry* (10) – accounted for more than half of the TWSS recipients (Table 1). Within sectors, *Accommodation/Food* (54 per cent of workers) and *Retail* (24) workers are particularly reliant on subsidies. The relative share of each sector has changed as different parts of the economy re-opened after the first lockdown. Since the third re-opening phase in July (week 26 in CSO data), more than half of the 100,000 entrants to TWSS worked in *Accommodation and Food Services*.

By end-August, 282,500 workers moved from TWSS to non-TWSS supported employment, of which 77 per cent are with their same employer, primarily in the retail and manufacturing sectors. More people moved from the PUP to the TWSS (125,100) than in the opposite direction (23,200). Throughout the summer, a continuous flow of workers opted to close their PUP payments and resume employment with their former employer in a role that was TWSS-supported. Firms in the *Accommodation and Food Services* sector exhibited the highest cumulative figure for these ‘re-hires’ (35,600) with the vast majority occurring after containment measures were eased upon entering Phase 3 (29 June).

More than one-in-four workers have been supported by wage subsidies since March

Consumer-facing sectors increasingly dominating take-up

<sup>4</sup> [Revenue Commissioners \(August 27, 2020\)](#).

<sup>5</sup> See [Byrne et al \(2020\)](#) for a demographic and sectoral analysis of the initial labour market impact of COVID-19.

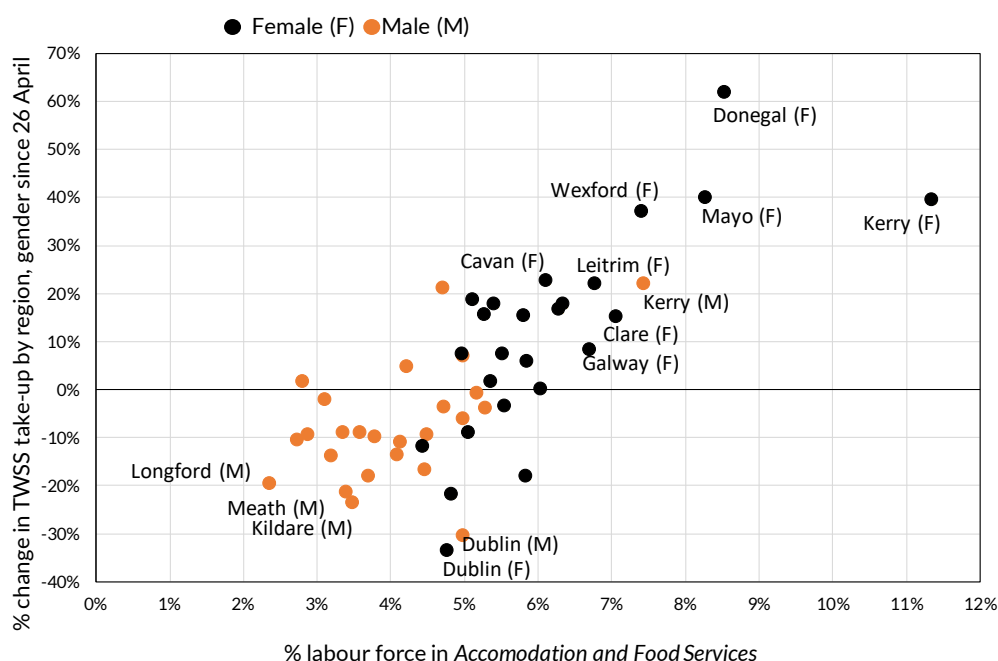
**Table 1. TWSS recipients by sector**

	Share of all TWSS in April	Share of all TWSS at end-August	TWSS share of workers within sector (% Q1 2020 employment)*	Share of economy aggregate employment (Q1 2020)
Accommodation and food service activities (I)	12%	24%	54%	7%
Wholesale and retail trade... (G)	26%	19%	24%	13%
Industry (B to E)	11%	10%	14%	12%
Construction (F)	11%	8%	22%	6%
Arts, entertainment, recreation ... (R,S)	5%	8%	24%	5%
Professional, scientific and technical activities (M)	6%	6%	12%	6%
Human health and social work activities (Q)	6%	5%	6%	12%
Administrative and support service activities (N)	5%	5%	15%	5%
Transportation and storage (H)	6%	5%	15%	4%
Financial, insurance and real estate activities (K,L)	3%	3%	8%	5%
Information and communication (J)	1%	1%	4%	5%
Education (P)	2%	2%	3%	8%
Agriculture, forestry and fishing (A)	1%	1%	2%	5%

Source/notes: CSO. Table LRW05. Weekly numbers on the scheme also reflect pay frequencies, which can give misleading week-on-week comparisons. CSO does publish a 'number supported' table (LRW12), although there is five-week lag in this table, which makes it less useful when things are changing week-on-week. To try and overcome the issue, we compare scheme take-up on a four-weekly basis, that is, Weeks 29-32 versus 23-26. (\*) This is the shares in Column 2 multiplied by 370,000 supported by TWSS (as reported by the Revenue Commissioners), divided by employment in Q1 2020 (LFS). Public sector (almost no take-up) and 'unknown' sector (2 per cent) are excluded.

The changes in the TWSS numbers by county and gender is correlated with the share of workers in *Accommodation and Food Services*. Figure 1 plots percentage change in the TWSS numbers (on the y-axis) between end-April and August against the share of the labour force in *Accommodation and Food Services*, within county and gender. In general, women are relatively more likely than men to have seen an *increase* in the TWSS numbers in recent months. The increase is larger in counties where a greater share of the labour force is working in the *Accommodation and Food Services Sector*, such as Donegal, Kerry (including for men), Wexford and Mayo. We observe a similar gender split – albeit not as strong – for retail, where there is also a greater concentration of female workers.

**Figure 1. Percentage change in TWSS support by county and gender (y-axis), and share (% ,x-axis) of labour force working in accommodation and food**



Source: TWSS data from CSO. Labour force by county, gender and sector from 2016 Census.

### **Changing subsidy amounts reflect compositional changes over time**

According to the Revenue data published in July, 21 per cent of employees were in receipt of the largest subsidy of €351-€410, while a further 35 per cent received a subsidy of exactly €350. Almost nine out of ten employers topped up wages.

We estimate that the average subsidy peaked at €330 per week (net) in May. The average top-up was €140 per week (gross). Earnings data from the CSO show non-manager/non-professional workers earned around €466 per week net pre-COVID (Q4 2019).<sup>6</sup> For the average TWSS recipient receiving a subsidy of €330 and a top-up of €140, this suggests a close to 100 per cent 'replacement rate', below management level *at this time*.<sup>7</sup>

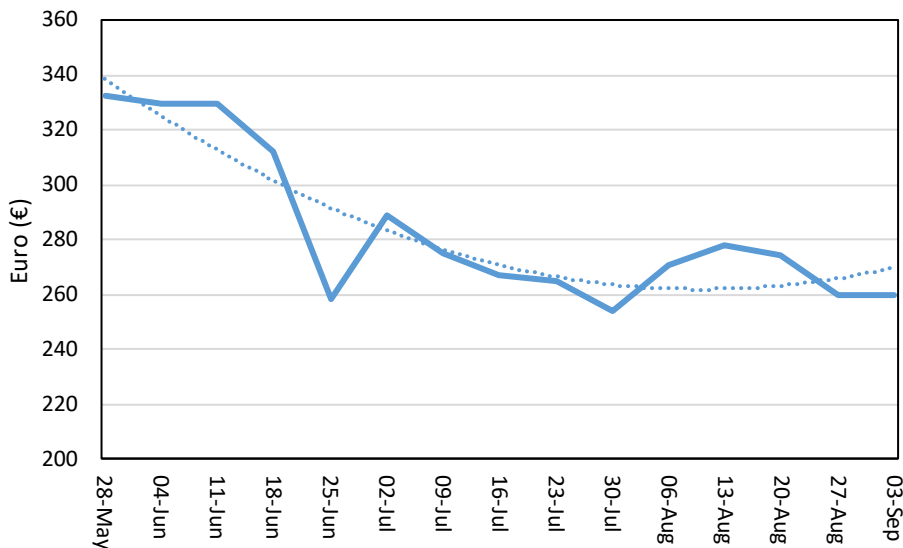
Using the rolling cost of the scheme, and the numbers supported, as reported by the Revenue Commissioners, we estimate the average weekly subsidy to have declined to approximately €260 by end-August (Figure 2). This decrease may

<sup>6</sup> The gross data is taken from [Table EHQ13](#) from CSO *Statbank*, Q4 2019. We use the average of weekly earnings for *Clerical, Sales and Service* (€525) and *Production, transport, craft and other manual employees* (€564). To get a net figure, we apply an average effective tax rate of 15 per cent.

<sup>7</sup> Typically, the replacement rate compares a person's in-work and out-of-work income. We use it here to compare earned income pre- and post-TWSS. For unemployed persons, the [OECD](#) estimates a typical net replacement using unemployment social transfers (excluding housing) of around 40 to 70 per cent for Ireland, depending previous earnings and household composition.

have been due to composition effects as higher earners flowed off (e.g., construction and professional) and lower earners flowed onto the scheme (e.g. accommodation and food).

**Figure 2. Average weekly wage subsidy (TWSS)**



Source: Authors' calculations, using Revenue Commissioner data to September 10.

Note: The dotted line is a polynomial trend line of order two

## Changes to wage subsidy schemes

There have been several changes to the wage subsidy schemes since their introduction at the start of the crisis. The EWSS, which runs to end-March 2021, has stricter eligibility conditions and lower subsidy amounts than the TWSS. However, the most recent changes (on October 19<sup>th</sup>) temporarily increase subsidy amounts, until end-January 2021. With this in mind, we begin with a discussion on how changing subsidy amounts affects incentives, of both workers and firms. This is followed by a brief discussion on the extension to new hires, and an analysis of the potential income effects. We conclude with a discussion of a scheme design issues.

### ***The incentive effects of changes in subsidy amounts***

Changing the subsidy amount affects the incentives of firms and workers availing of the scheme. A lower subsidy means less income from work for some employees, depending on how employers respond, i.e. through top-ups. From the worker's perspective, the closer alignment of the subsidy with unemployment benefits increases the incentives to search for alternative employment, particularly if a worker faces a material risk of job loss in the future. Subsidised workers on materially lower hours than they were pre-COVID-19 are vulnerable,

as we discuss below. As highlighted in [Callan et al. \(2012\)](#), the replacement rate is central to job search incentives.

A lower subsidy also means firms bear more of the wage costs of employees, including for hours not worked. This incentivises employers to increase hours worked when it becomes profitable to do so. If employers have to pay more for hours not worked, or pay workers closer to their marginal productivity, there could be an increase in layoffs – in particular for sectors with a weaker outlook.

One challenge in constructing wage subsidy and short-time work schemes more generally relates to the impact on productivity levels over the longer-term. This arises because employers are subsidised to retain workers in many instances even if productivity has fallen as a result of the shock.<sup>8</sup> This is why wage subsidy and short-time work schemes are *typically* time-limited, targetting firms experiencing short-term, or cyclical shocks.<sup>9</sup> Whilst these are important considerations for scheme design in '[normal times](#)' (a topic we return to in the conclusion), COVID-19 is a special case. With continuing uncertainty over the path of the virus, insolvency issues could lead to *viable* firms closing. This will hamper the recovery once the spread of the virus is controlled, for example by the rollout of a vaccine. Another factor is the very high levels of job loss, and [fewer job vacancies](#), which makes it harder to find alternative suitable employment.

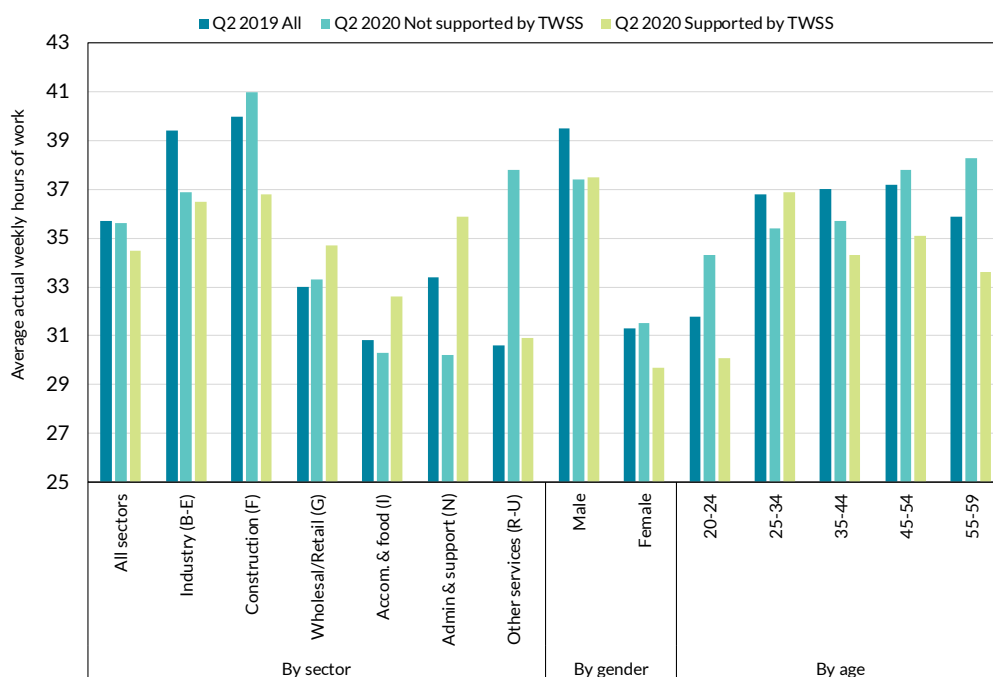
To get a sense of which workers or sectors might be vulnerable by moving to a lower subsidy, we compare weekly hours worked by TWSS recipients and non-recipients. If there is a significant difference in hours worked, then it suggests some TWSS-recipients might be in 'at risk' jobs. It is important to point out that this provides only an incomplete picture. For example, in the case of skilled, or particularly 'hard to replace' skills, firms may still want to retain workers even with a lower subsidy. Overall, across all sectors, there is only a small difference in hours worked: 35.6 (not supported by TWSS) versus 34.5 (supported, Figure 3). Just 4 per cent of TWSS supported workers state their actual hours of work are less than 10 hours per week. This is in line with the observation that the *employment* decline (including the increase in the PUP recipients) in the Q2 2020 Labour Force Survey was concentrated in *part-time* jobs. There are some sub-groups/sectors where TWSS hours are noticeably lower, and therefore will need to be monitored, including: Construction (G) and Other Services (R-U), and younger (20-24) and older workers (55-60).

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<sup>8</sup> A study by [Giupponi and Landais \(2019\)](#) on short-time work schemes describes negative 'reallocation effects' that can arise from labour hoarding because the incentives for workers to move from lower- to higher-productivity firms can be blunted due to the subsidy.

<sup>9</sup> See [Lydon et al \(2019\)](#) and [Brueker & Boeri \(2011\)](#) for a discussion on Short-time work schemes during the financial crisis.



**Figure 3. Average actual hours by TWSS/non-TWSS support**

Source: Labour Force Survey. Data provided by the CSO.

The recent temporary increase in subsidy amounts aligns the EWSS to new PUP payments. It also prioritises job retention, incomes supports, and liquidity support for viable, but potentially insolvent, firms. This makes sense when the priority is to contain a rapidly spreading virus, and when the timing of a permanent long-term health solution (i.e., a vaccine) remains unclear. However, once these uncertainties start to ease, it will be important to reconsider some aspects of scheme design. This includes subsidy amounts, and how these might change over the length of time on the scheme, as recently discussed by the [OECD \(2020\)](#). Further allowing supported workers to access public employment services whilst still in work – for example, job boards, active labour market programmes and training – will also help.

### **Extension to new hires**

The [July Stimulus Package](#) extended subsidies to seasonal and new employees. Extending to new employees supports labour demand in an exceptionally uncertain environment for firms. Unlike more ‘typical’ sources of demand uncertainty – for example, competition effects, lower incomes, or changes in consumer preference – during COVID-19 demand can be curtailed both rapidly and, in some cases, fully due to restrictions to limit the spread of the virus. This is a difficult to quantify part of the net benefit calculation that firms must undertake when deciding whether or not to hire an additional worker. To the extent that the State can ‘insure’ against this risk with time-limited subsidies, this could help to

‘underwrite’ labour demand in the short-term. However, as some new hires could have taken place *without* a subsidy, particularly as hiring firms are likely to be performing better on average, ex-post evaluation of this aspect of the scheme will be important to understand the net benefits. From the worker perspective, it is also important to understand the unemployment situation of new labour market entrants, and how extending the wage subsidy to new hires affects it. These factors, and others, need to be fully considered when looking at the case for, and design of, a *permanent* State wage subsidy scheme.

### **Incomes and changeover to EWSS**

Under the (original) EWSS, the level of the weekly subsidy is paid at two flat rates: €151.50 for employees with *gross* weekly earnings between €150.50 and €202.99; and €203 for earnings between €203 and €1,462 per week. Below €151.50 and above €1,462, there is no subsidy. In moving to Level 5 restrictions, the Government increased the subsidy across [five gross pay bands](#), up to a maximum of €350 per week. In Table 3, we use 2018 SILC data (the latest available), to show the percentage of workers in each of these five gross pay bands, by sector.

The figures illustrate what the temporarily higher subsidy means for workers and firms. In *Accommodation and Food Services*, where weekly earnings tend to be lower on average because of both lower wages and hours, a substantial proportion of the more than 50 per cent of workers currently on the scheme (Table 1, column 3) fall into the new higher subsidy bracket. This means higher earnings, a lower top-up from firms, or, most likely, a combination of both than would be the case without the change. The effects are even more significant in other sectors where gross earnings tend to be higher, on average.

**Table 3. Distribution of gross weekly pay (% employees in each bracket)**

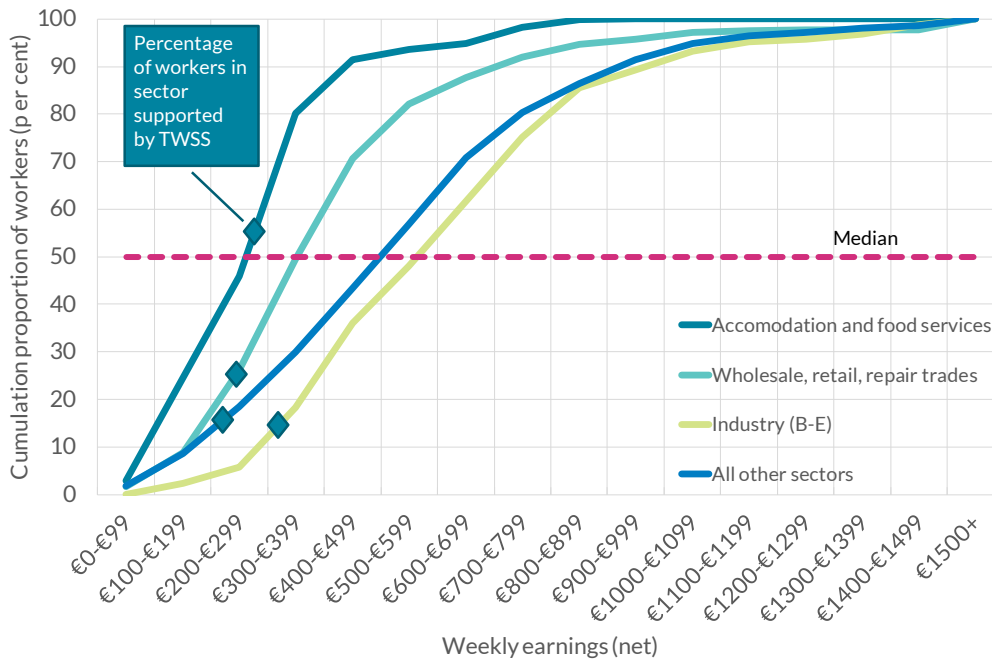
<i>Gross weekly earnings</i>	<i>Subsidy</i>	Accommodation & food services	Wholesale/ retail trades	Industry (B-E)	All other sectors
<i>Up to €151</i>	€0	7.4	5.4	0.5	3.8
<i>€151-&lt;€203</i>	€203*	14.0	1.6	1.4	4.2
<i>€203-&lt;€300</i>	€250	19.7	16.1	3.2	8.3
<i>€300-&lt;€400</i>	€300	25.2	17.3	7.1	6.8
<i>€400-&lt;€1,462</i>	€350	33.3	54.9	76.9	65.6
<i>&gt;€1,462</i>	€0	0.6	4.8	10.8	11.4
		100.0	100.0	100.0	100.0

Source: SILC 2018. (\*) €203 is the maximum subsidy under EWSS, before the changes announced on 19<sup>th</sup> October.

As the wage subsidy is a *net* amount, we also look at the distribution of *net* weekly earnings. Figure 4 shows the cumulative proportion of workers by level of earnings. The horizontal line shows the median for each sector, above (below) which 50 per cent of workers earn more (less).

In *Accommodation and Food Services*, one-third of workers were earning less than €200 per week net in 2018 while, half were earning less than €300. Net weekly earnings tend to be higher in other sectors, as the right-ward shift in the cumulative lines in Figure 4 shows. In the *Wholesale and retail-trade; and repairs of motor vehicles and motorcycles* sector, one-fifth of workers earned less than €200 per week net, and the median net weekly pay was between €300 and €399. In other sectors, including industry, the median was between €500 and €599. To the extent that *more* workers in these sectors are supported by wage subsidies as a result of the move to Level 5 (i.e. the diamonds in the chart move up and to the right), then the higher subsidy is a significant short-term boost for firms and workers.

**Figure 4. Distribution of net weekly earnings (cumulative, SILC 2018)**



Source: SILC 2018. The diamonds in the chart show the percentage of TWSS-supported workers within sector, from Table 1, column.

**Other scheme design issues to consider**

Currently, firms cannot avail of the EWSS if their revenue-decline is *less* than 30 per cent. Greater flexibility around this requirement – for example, a taper gradually reducing subsidies – could improve the targetting of the scheme. By smoothing the exit from the scheme, it also helps to address some potential side-effects of a single eligibility threshold, which could prove important for economic

recovery. Take the example of a firm that might have adapted ‘better’ to the new environment, but still has revenues, say, 27 per cent below pre-COVID-19 turnover levels. Without a subsidy, this firm could be disadvantaged relative to a competitor with revenues at least 30 per cent threshold, who might not have adapted so well. The better performing firm might have to reduce labour demand (costs) to remain viable. Another example is the case of more labour-intensive firms that could be more *profitable* below the 30 per cent threshold by reducing prices or increasing labour inputs, allowing them to remain on the scheme, but increase profits (depending on the relative price/cost change). While in this scenario workers remain attached to their roles, there are potential misallocation issues here which could be avoided with a tapered eligibility.

The introduction of a gradual taper off wage subsidies could be more costly, at least initially. However, it could also contribute to savings and higher growth in the longer-run if it helps contribute to job retention for the most productive and viable firms.

## Conclusion

Workers in *Accommodation and Food Services* and some *Retail* sectors account for an increasing share of workers supported by wage subsidies. This changing composition explains higher female take-up of wage subsidies in some counties.

The replacement rate for the average worker supported by the TWSS was relatively high. Prior to the most recent move to Level 5 restrictions, the EWSS lowered the subsidy amount. The recently introduced (temporary) higher subsidy during a period of tightest restrictions is warranted when the priority is restricting virus spread, supporting incomes, job retention and preventing firm insolvency over the short-term.

The government says it intends to incorporate wage subsidies or a formal short-time scheme work into labour market policy on a more permanent basis. One of the challenges in doing this is moving from the particulars of the COVID-19 scheme – a situation where the ‘normal’ process of reallocation is temporarily curtailed– to a scheme designed to support workers and firms facing what we might think of as more ‘typical’ demand shocks.<sup>10</sup> Good scheme design is important for the efficient working of such schemes. This includes consideration of eligibility conditions, time limits, decreasing subsidies over time and the question of extensions to new hires. A recent [OECD](#) paper highlights the key issues. The time to consider and decide on these issues is when there is greater certainty about the containment of the virus, and a recovery path is visible. That said, in the short-run, and within the existing EWSS scheme, a tapered eligibility

<sup>10</sup> As argued in [Lambert et al \(2020\)](#), drawing on [Blanchard, Phillippon and Pisani-Ferry \(2020\)](#).

could help to provide a smoother transition for firms moving on and off the scheme.

Finally, it should be emphasised that the wage subsidy scheme is just one part of the policy response to the shock arising from restrictions to combat the COVID-19 pandemic. Other firm liquidity supports and labour market policies, such as the Pandemic Unemployment Payment, job seekers allowance, active labour market programmes and re-training will also be central to addressing the challenges that arise from this shock.



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